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SUBJECT: ROK ATTITUDES ON UNIFICATION: LONG-TERM PLANS VS.
POSSIBLE CONTINGENCIES

Classified By: Amb. Alexander Vershbow. Reasons 1.4 (b/d)

11. (C) SUMMARY AND INTRODUCTION: The February 13 "Initial Actions" agreement has once again brought to the fore the resumption of inter-Korean engagement and the overall relationship between the two Koreas, including reunification. The ROK's constitution and presidential oath call for Korean unification, and most South Koreans seem to support unification at some point in the future. At the same time, ROKG policy emphasizes peaceful coexistence, implying maintenance of the status quo for many years to come. The public also appears to be in no hurry for unification, especially given the large potential costs to an economy in which people are already anxious about their future. The result is that, for many South Koreans, unification is a long-term goal, perhaps 20 years or more in the future. Nevertheless, some observers insist that the ROKG should prepare for a contingency -- such as a collapse of the DPRK government -- that could accelerate the unification process in unpredictable ways.

12. (C) Our analysis of current South Korean views, based on recent meetings with ROKG officials and academics, reveals the following:

-- POLICY HISTORY: As the ROK has shifted from emphasizing confrontation to peaceful coexistence with the DPRK, planning for unification has taken a back seat (paras. 5-11).

-- ECONOMICS BEFORE POLITICS: President Roh Moo-hyun's "Peace and Prosperity Policy" toward North Korea is a continuation of earlier efforts for reconciliation; but the "prosperity" label signals an increased emphasis on economic engagement, aimed at closing the enormous gap in economic conditions so that unification, when it comes, does not impose a huge financial or refugee burden on the South (paras. 12-15).

-- ROKG OFFICIALS' PRIVATE VIEWS: Most current and former officials view unification as a long-term prospect. Some focus on possible contingencies that could accelerate unification, and stress that the views of external actors, like the United States and China, will play an important role (paras. 16-21).

-- ROK ACADEMICS' VIEWS: Several North Korea specialists at ROKG-supported think tanks believe that the current engagement policy fails to prepare for unification and cedes too much initiative to the DPRK; others defend the approach

as cushioning the shock when unification comes (paras. 22-29).

-- UNIFICATION COSTS: Alarmed by the costs of German reunification, Bank of Korea economists are working on a "one country, two systems" unification model, akin to that of Hong Kong-China, that would keep North Koreans in place during a prolonged transition phase (paras. 30-33).

-- PUBLIC OPINION: The ROK public has consistently viewed unification as a national imperative, but most see it as a long-term objective. Indeed the DPRK's missile launches and nuclear test last year had a dampening effect on the public's optimism about the South's ability to cooperate with the North (para. 34).

13. (C) This being said, the ROK's non-confrontational engagement policy with the DPRK is now sufficiently rooted in South Korea that even a more conservative Grand National Party candidate, if elected in December, would not jettison its central elements. In fact, with renewed optimism following the February 13 agreement, progressive forces are hoping an inter-Korean summit could revive their fortunes in December's election, and the GNP is scrambling to formulate a kinder, gentler North Korean policy to avoid squandering its lead in the polls.

14. (C) Looking beyond the election campaign, however, ROK unification policy under any successor administration is likely to remain focused on a long-term effort, supported by continued economic cooperation, that depends on the DPRK gradually becoming willing to move toward unification as it slowly opens up to limited economic reforms and foreign investment. This is not to say that unification could not happen more rapidly, however. Given Kim Jong-il's age (65)

and uncertain health, as well as the DPRK's economic difficulties, events may shift into fast-forward regardless of the South Korean's desire to control the pace of unification. END SUMMARY AND INTRODUCTION.

POLICY HISTORY: CONFRONTATION TO COEXISTENCE

15. (SBU) What South Koreans mean when they talk about Korean unification has changed considerably over the past several decades. Until the late 1960s, the ROK claimed that it was the only legitimate government on the Peninsula. The DPRK made the same claim, and, to some degree, still does. An early indication of a shift in the South's stance was then-President Park Chung-hee's August 15, 1970 speech suggesting that the ROK was willing to coexist peacefully with the DPRK.

16. (SBU) More important was the July 4, 1972 North-South Joint Communiqué that emphasized pursuing unification peacefully and independently (of outside powers). The notion of coexistence of the two Koreas was implanted by the 1970s, but unification was still seen as a zero-sum game. As Kim Hakjoon wrote in a 1978 book on unification policy, "Each of the Korean sides has defined unification to mean, in effect, the dissolution of the political system of the other party and then its incorporation into that of its own."

17. (SBU) The first efforts toward an inter-Korean summit -- which finally happened in 2000 -- came in 1982, when then-President Chun Doo-hwan spoke of a peaceful unification formula that would first normalize relations between South and North. He also proposed an exchange of high-level delegations to prepare for a summit meeting. That summit did not happen, but the South continued to step back from direct confrontational policies. In 1988, then-President Roh Tae-woo issued a "Special Presidential Declaration" calling for North-South relations on the basis of potential partnership in pursuit of common prosperity. He pursued a policy of "Nordpolitik," following the West German model of "Ostpolitik." He also established an Inter-Korean Exchange and Cooperation Promotion Committee, again called for a

summit, and in 1989 expressed the desire for the two Koreas to live together peacefully.

¶8. (SBU) In December 1991, the two Koreas signed the "Agreement on Reconciliation, Non-Aggression and Exchanges," or the Basic Agreement; it took effect in 1992. Even now, South and North Koreans often refer to this document as the basis of current reconciliation efforts. In it, the North and South agreed to respect each other's political systems, to carry out exchanges and inter-Korean cooperation, and to create a web of committees to institutionalize these arrangements. Continuing the spirit of rapprochement, then-President Kim Young-sam spoke of a gradual, peaceful process of unification and said that there would be no "unification by absorption," which was code for no German-style unification based on the collapse of one side's political system. At the same time, he called for a unification "centered on the values of freedom and democracy," but apparently only when the North was ready to make such a shift. He also started the first direct ROKG rice assistance to the North.

¶9. (SBU) Though former President Kim Dae-jung and his supporters seem to view his "Sunshine Policy" (based on the Aesop's fable of the wind and the sun) as a bolt from the blue, it was clearly the outgrowth of efforts to ease tensions and allow economic growth in the South continue undisturbed. Even so, then-President Kim Dae-jung went the extra mile to remove any suspicions that the North might have that the South was angling for a takeover. He ordered that "unification" be dropped from all descriptions of his government's policies, replaced by "constructive engagement policies." As he summarized the policy in 2002: the South would not tolerate any armed provocation from the North; it would not seek to harm the North or absorb it; and, the two Koreas should reconcile and live in peaceful coexistence. An even more succinct summary was printed on commemorative pen boxes distributed after the June 2000 summit: "Peaceful coexistence - Peaceful exchange - Peaceful unification."

¶10. (SBU) According to the Sunshine Policy, unification was to occur in three stages on an indeterminate timeline: confederation; federation; and complete unification. Although the engagement policy was initially supposed to proceed on the basis of reciprocity, in practice the Kim Dae-jung administration put a priority on avoiding confrontation. For example, when the North refused to set up a family reunion center in exchange for aid, as initially envisaged, the South shifted to "flexible reciprocity," explaining that an elder brother (the more developed South) could be patient and wait for a positive response.

¶11. (SBU) In short, the Sunshine Policy emerged from a decades-long effort for reconciliation. As the ROK emphasized peaceful coexistence, active planning and preparation for unification took a back seat, lest ROK policy appear hostile. Reinforcing that trend was the growing awareness, especially after German reunification, that Korean unification would entail heavy costs.

PRESIDENT ROH'S "PEACE AND PROSPERITY" POLICY

¶12. (SBU) Unification policy may have taken a back seat to peaceful coexistence, but unification has remained an official ROK goal. Unification is woven through the ROK constitution, in the preamble, main text and presidential oath. As Article 4 states, "The Republic of Korea shall seek unification and shall formulate and carry out a policy of peaceful unification based on the principles of freedom and democracy." Hence, any ROK administration must maintain a unification policy.

¶13. (SBU) The Roh Moo-hyun administration's policy toward North Korea is essentially a continuation of Kim Dae-jung's Sunshine Policy, but the "Peace and Prosperity" label points

to an increased emphasis on economic engagement. The approach toward unification was spelled out in the Ministry of Unification's "Road to Korean Unification," published as a glossy pamphlet in English. It again called for a three-stage process:

(1) Reconciliation and Cooperation, which in turn has the three components of "stable development of inter-Korean relations"; "the strengthening of peace and cooperation"; and "the establishment of a peace and cooperation system."

(2) Korean Commonwealth, which amounts to achieving de facto unification by establishing a socio-economic "community between the two Koreas."

(3) Unified Korea, meaning "...legal and institutional unification and complete sectoral integration."

¶14. (SBU) The ROKG's current assessment, according to the MOU, is that relations are now progressing toward Reconciliation and Cooperation, "proceeding from 'stable development of inter-Korean relations' to 'strengthening peace and cooperation.'" This first stage -- whose highlights have been the establishment of tourism to Mt. Kumgang in 1998 and the ground-breaking of the Kaesong Industrial Complex in 2003 -- cannot be considered complete until the nuclear issue is resolved, according to the ROKG. There are no timelines associated with these stages.

¶15. (SBU) President Roh reiterated his Government's approach in a January 23 speech: "The top priority is peace on the Peninsula. We should not break peace for the sake of unification. A confrontational attitude cannot achieve anything. The essence of the strategy toward peace is the wisdom to coexist."

ROKG OFFICIALS ON UNIFICATION

¶16. (C) Park Jae-kyu, who was Unification Minister from 1999 to 2001, including during President Kim Dae-jung's June 2000 summit with Kim Jong-il, recently told the Ambassador that he has always viewed Korean unification as a long-term prospect.

At the time of the 2000 summit, he believed that three issues had to be addressed before unification could be realistically considered: (1) the vast difference in GDP (USD 606 billion in the ROK, compared to USD 18 billion in the DPRK, a ratio of 34:1, according to a 2007 OECD comparison using 2004 figures); (2) thorny legal issues, including property rights for former residents of North Korea now in the South; and (3) cultural and educational differences, which Park said left North Koreans without skills or initiative. Park claimed he had discussed these issues with Kim Jong-il during the 2000 summit, telling Kim that the North should not be worried about an ROKG effort to absorb or attack the North. Park said Kim agreed that solving the above problems would take 20-30 years.

¶17. (C) Speaking privately, current Unification Ministry officials see little movement toward carrying out the "Road to Korean Unification" plan. The MOU's Director of Inter-Korean Social Exchanges Park Kwang-ho told us that it was understandable that people could ask what the ROKG's unification plan was because the Roh government did not talk about it; the emphasis has been on establishing peace. He dismissed the "Road to Korean Unification" as outdated, saying that a more accurate description of the current policy was maintaining the status quo.

¶18. (C) Asked the likelihood of unification at some point, Director Park said it was plausible that the ROK would not proceed toward unification and that the two Koreas would instead remain separate. Few young people were interested anymore, he said, recounting that he went to talk about unification at his former high school and was greeted with either no interest or the question, "Why should we pay for

them?" The MOU's Director of the Peace Regime Building Team, Kim Ki-woong and Director of the MOU's International Cooperation Team Kim Jong-ro agreed that there were no set timelines in the ROKG's unification action plan.

¶19. (C) The ROKG's unification action plan might be in low gear, but the more important questions, according to these MOU officials, were: (1) whether unification could become more realistic due to a contingency, for example a collapse of the DPRK government; and (2) how outside powers would react to such an event. Park believed that the ROKG needed to prepare for contingencies because that was how the unification question would probably arise, rather than through the ROKG's gradual plan. Director Kim Ki-woong said that in such a situation, three issues would have to be addressed: accommodating refugees; China's reaction; and how to govern the North. He also was skeptical that China would allow unification.

¶20. (C) The MOU's Director of the International Cooperation Team Kim Jong-ro emphasized the costs of unification, both the financial burdens and the social costs of integrating undernourished and undereducated North Koreans into South Korea. He said that Japanese academics had written papers highlighting the significant costs of unification, which, he said, was consistent with Japanese reluctance about seeing a unified Korea.

¶21. (C) Three Ministry of Foreign Affairs and Trade (MOFAT) officials provided different perspectives on the ROKG's unification policy. Shin Chae-hyun, Director of North America Division I, said that unification was not a front-burner issue because most Koreans did not think about it. Politicians got mileage talking about jobs and most politicians were content to leave North-South relations on the gradual-engagement track. Director of MOFAT's Inter-Korean Policy Division Yu Joon-ha, who served in the MOU during 2005-2006, told us off-line that the ROKG's engagement policy was based on two faulty assumptions: (1) that the DPRK would reform because of cooperative projects such as the Kaesong Industrial Complex; and (2) that any ROKG effort to be firm with the DPRK would provoke a crisis. But Yeo Seong-bae, Assistant to the Foreign Minister Song Min-soon, with experience at the Blue House, was more bullish on the current approach. He said not to mistake the ROKG's economic engagement policy as benign assistance; instead, it was a "Trojan horse" designed to destabilize the DPRK to create the conditions leading to unification.

ROK ACADEMICS' VIEWS

¶22. (C) Of the eight ROK academics we spoke with in recent weeks about the ROKG's unification policy, Ryoo Kihl-jae, Dean of Academic Affairs at the Kyungnam University of North Korean Studies, was the most critical of the existing policy. He said that engagement was premised on fostering gradual improvement in the DPRK regime but the changes -- including the partly successful attempt to introduce capitalism at the KIC -- meant little until the whole DPRK system began to change, which it had not.

¶23. (C) Ryoo said that the Sunshine Policy and Roh's Peace and Prosperity policy had failed on three levels: there had been no structural change to the DPRK regime; there had been no improvement in the DPRK's international situation (witness the nuclear issue); and on the day-to-day level, there was an increased number of exchanges but with no improvement in quality. There was no reason to expect the Kim Jong-il government to change, since it was in essence a continuation of the original Kim Il-sung government, and Kim Jong-il had no motivation to open the door. North Korean leaders must be thinking about the fate of other authoritarian leaders, such as former Romanian dictator Nicolae Ceausescu; they want a guarantee of internal regime stability that neither the U.S. nor the ROK could provide.

¶24. (C) Dismissing the rationale for the engagement policy, and seeing no concrete progress toward unification, Ryoo said the most likely road to unification would be changes in the DPRK 2-3 years after Kim Jong-il's death. The ROKG should stop claiming it was advancing toward unification and instead admit that it was merely "managing the status quo." Echoing MOFAT's Shin, Ryoo said that most South Koreans do not care about North Korea, adding "they're exhausted with the issue."

¶25. (C) Yang Moo-jin, Director of External Affairs at Kyungnam University's Institute of Far Eastern Studies (IFES), defended the ROKG's gradual approach toward unification on both economic and political grounds. Economically, he said, echoing former MOU Minister Park, the GDP gap was too big, and would have to be reduced to about 5:1 or even 3:1. Now, the ROK would not have the ability to reconstruct the DPRK, he said, and a sudden collapse of the DPRK should be avoided because it would take the government's entire annual budget for emergency support to the DPRK and absorption of refugees. Politically, he continued, a peace regime replacing the 1953 Armistice Agreement would be needed before unification could progress to the second stage -- commonwealth. The two Koreas were at the primitive stage of reconciliation; it was reasonable to believe experts who saw unification taking 20 to 50 years. Beyond these inter-Korean considerations, external factors mattered. Unification would require both U.S.-DPRK and Japan-DPRK normalization, he said.

¶26. (C) IFES Professor of North Korean studies Kim Keun-sik largely echoed these views favoring gradual unification, adding that an engagement policy that preserved the status quo was also in the USG's interest because a sudden DPRK collapse would lead to Chinese attempts to fill the vacuum.

¶27. (C) Huh Moon-young, Director of North Korean studies at the ROKG-affiliated Korean Institute for National Unification (KINU), said he supported the engagement policy but not the ROKG's approach, for many of the same reasons as Ryoo: a lack of conditionality on aid to the North and a lack of planning beyond the initial tension-reduction phase. Huh said he had suggested revising the engagement policy to President Roh before the October 9 nuclear test. Huh stated that Roh's initial October 9 comments that the engagement policy needed fundamental changes were in line with Huh's recommendations, which were: (1) to condition ROKG assistance to the North on DPRK behavior; (2) to allow NGOs to take charge of and continue humanitarian aid; and (3) to encourage businesses to develop long-term relationships with North Korean companies. Huh lamented, however, that the ROKG later settled back into old habits.

¶28. (C) KINU's Jae Jean-suh, a sociologist, said that ROK public opinion was against unification because the people had been given the wrong information. They had heard huge cost estimates but did not understand that these should be seen as investment costs that could help the North catch up with the South relatively quickly. On the contrary, it was a divided Korea that faced exorbitant costs, Jae said not only security costs, but the opportunity costs of having the North underdeveloped. Viewed more broadly, unification would benefit Korea because it would strengthen the nation and help stabilize Northeast Asia. The key to achieving unification, in Jae's view, was to convince the DPRK "cadres" -- about 200,000 mid-level officials (or 10 percent of the estimate 2 million Korean Workers' Party members) that they would be better off after unification. This would be a shift from current ROKG engagement policy, targeted at a few non-elites who could not effect change. Turning to external considerations, Jae said that China, Japan and Russia would all prefer the status quo to a unified Korea.

¶29. (C) Conservative academics from Myongji University, home to many retired ROKG officials, were critical of the ROKG's current engagement policy. The ROK should induce change in North Korea by letting more North Koreans know what was happening in the outside world, said former MOFAT official and now North Korea specialist Song Jong-hwan, who was joined

by professors Do Joon-ho and Lee Yung-kee. Unification should be actively pursued, but instead the ROKG was soft, giving the DPRK whatever it wanted. Song said that the DPRK appeared to pursue reconciliation with the ROK for three reasons: (1) to get as much money as possible; (2) to increase pro-DPRK sentiment in the ROK; and (3) to drive a wedge between the U.S. and ROK. The DPRK had succeed in all three, he said. Echoing Ryoo, Lee said that DPRK policy had toughened as a result of ROKG policy. Some economic engagement was needed, but the ROKG should be in the lead rather than letting the DPRK dictate each step. That South Koreans generally did not appreciate the strategic threat posed by North Korean nuclear weapons was a danger, these academics concluded.

UNIFICATION COSTS: STICKER SHOCK

¶30. (SBU) Many officials and academics call unification unaffordable, and media reports citing astronomical cost estimates have no doubt led much of the public to think of unification as at least a generation away. Cost estimates vary widely because their underlying assumptions vary greatly. For example:

-- Goldman Sachs in 2002 estimated costs of USD 3.5 trillion, or over five times current ROK GDP, based on unification occurring in 2005 and with the goal of equalizing North and South per capita GDP by 2015. (The South's per capita GDP is now at least 16 times that of the North's, or USD 12,600 compared to USD 800, according to OECD estimates using 2004 figures.)

-- Moody's Investors Services estimated that the ROKG would spend USD 100 billion annually during the first five years post-unification. While more modest than the Goldman Sachs estimate, the Moody's case would still have the ROKG using an equivalent of almost 40 percent of the ROK's 2007 budget, though polls indicate that few South Koreans would support hefty tax increases to pay for unification.

-- A 2005 RAND Corporation study cited costs of USD 50 billion to USD 350 billion for the relatively modest goal of doubling DPRK GDP within five years, seen as a measure of sufficient economic momentum to keep unification viable. Even so, this study noted that there would be many other costs such as training, welfare, health, and infrastructure.

¶31. (SBU) South Koreans worry about the German example, seeing it not only as expensive (estimated at USD 1.4 trillion from 1991-2004, or about 5-6 percent of Germany's cumulative GDP during the period, according to the RAND study) but as a drag on the once-vaunted German economy that contributed to unemployment and European sluggishness. Another factor that many interlocutors cited was the sharp drop in ROK GDP after the 1997-1998 Asian financial crisis, leading to more hesitation about paying for unification.

¶32. (SBU) For those reasons, the ROKG has been looking for a different model, according to Bank of Korea economists Sung Min-moon, Song Oek-heon, and Lee Young-hoon, who make up the central bank's Northeast Asian Economic Studies Team. They shared a January 2007 working paper that looked at Korean unification under a "special zone model," which Song explained was meant to be analogous to Hong Kong-China unification: one country, two systems. According to this model, which the Bank of Korea economists stressed did not yet have official standing, the North Korean population would remain in place, encouraged to do so by government incentives as well as by a closed border. Meanwhile, the ROKG would invest in basic infrastructure, but would rely on private investment to raise productivity and output in the North. North Korean won would be exchanged at market value, not by declaring parity as was done, at great expense, in the German case. Depending on the assumptions about how effective investment in the North would be, this "special zone model"

would cost the ROKG from USD 550 billion to USD 1 trillion in government spending (transfers and investment) over a time horizon of 19 years or longer; additional private investment would be needed too.

¶33. (SBU) The large costs under any of these scenarios go against the grain of the ROKG's "Vision 2030" social-welfare plan, which -- without mentioning potential unification -- calls for increased government spending to develop the ROK into a "fully advanced" country with social welfare levels on a par with other OECD countries. The "Vision 2030" plan foresees spending on North Korea increasing from about 0.1 percent of GDP now to 1.0 percent by 2030, on the order of USD 10 billion per year. Any of the unification scenarios would entail much higher costs, but among the unknowns is how the international community would share the burden.

PUBLIC OPINION: UNIFICATION IS A NATIONAL TASK

¶34. (U) Poll results from the Korean Institute for National Unification (KINU) provide a glimpse of South Korean attitudes toward unification:

-- Asked in 2005, "What do you think about the claim that unification is a national task?" 84 percent said that they strongly agreed (49 percent) or agreed (35 percent), compared to 12 percent who disagreed.

-- Asked in 2005, "Why do you think unification is necessary?" 35 percent cited "national unity," 28 percent "economic development," 20 percent "prevention of war," 11 percent "to alleviate pains of separate family members," and 3 percent "to improve the quality of life for North Koreans"; these responses generally tracked with responses in 2003 and ¶1999.

-- Asked in 2005 what the South should focus on to prepare for unification, 41 percent cited "economic development," followed by 36 percent who cited "national consensus." A similar question in 1999 also spotlighted economic concerns, in keeping with a common South Korean perception that the South had to build its economy further before it can afford unification.

-- Asked in 1999, "When do you think unification will happen?" 28 percent said "within 20 years," 27 percent said "within 10 years," while 18 percent said "within 30 years" or "over 30 years." In the 1994 survey, 57 percent of respondents thought reunification would happen within 10 years. This question was not repeated in later surveys.

-- Asked in 1999, "What is your opinion on unification?" 83 percent of the 1,000 adults surveyed said, "Conditions for gradual unification should be constituted," while only 6 percent said, "efforts for immediate unification should be made." This question was not repeated in later surveys.

-- In response to a 1994 question that was not repeated in later surveys, 63 percent of respondents said that the Kim Jong-il regime would only last 2-5 years.

COMMENT: "UNIFICATION IS OUR HOPE?"

¶35. (C) By the time South Korean children enter kindergarten, they know two songs by heart. The first is the national anthem and the other is "Unification is our Hope." All polls now seem to show that the song, written over fifty years ago, is outdated because most South Koreans do not want to deal with the unification question, at least not in their working lifetimes. Still, for virtually all South Koreans, having one sovereign nation again on the Peninsula is a powerful goal, evoking passion, establishing movements and populating think tanks. Above all, how to approach the unification question has been a key issues dividing

"conservatives" and "progressives" in South Korea.

¶36. (C) The progress in the Six-Party Talks, especially the February 13 "Initial Actions" agreement, has again triggered a soul-searching internal debate on this very question. What does it mean to officially declare an end to the Korean War? What will be the status of North Korea if a peace treaty is signed? Should the Constitution be revised? How about the National Security Law, which criminalizes all published material sympathetic to the North? Is this a leap toward unification? Or is it an acceptance of a "one peninsula - two countries" model?

¶37. (C) These questions come at a time of frenetic domestic political activity; the presidential election is less than nine months away. The ruling party and fellow progressives--languishing at single digits in the polls--now believe that, in pushing for an inter-Korean summit in tandem with progress in the Six-Party Talks, they have found the "home run," and that their prospects are now far from hopeless. Meanwhile, the opposition GNP is virtually in a panic mode, with the party leader even suggesting a much more forthcoming stance on the whole question of engagement policy. The electoral debate, which is heating up fast, will have consequences for how South Koreans approach unification, as will the election outcome.

¶38. (C) In any direction we look -- history, economics, security, politics or diplomacy -- the United States is definitely an interested party in Korean unification. Our strategic interests dictate that we must approach this question well prepared and expecting the unexpected. Above all, we need to maintain the position that this is, first and foremost, an issue that the Koreans must settle, and that the United States, while an interested party, will never stand in the way.
VERSHBOW